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STATEMENT OF
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FOR CONSERVATION, RESEARCH, AND EDUCATION
U. S. DEPARTMENT OF AGRICULTURE

Before the Subcommittee on Forests of the
Committee on Agriculture
United States House of Representatives

On H.R. 4498 pertaining to Reforestation,
Log Exports, and Tax Measures

JULY 19, 1979

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

We welcome this opportunity to appear before the Subcommittee on Forests and provide our views on H.R. 4498, dealing with reforestation of public and private lands and the export of softwood logs.

The bill contains four distinct provisions. We would like to comment separately on each of those major provisions. Title I would amend the Knutsen-Vandenburg Act of 1930, adding a new section to authorize the Secretary of Agriculture to require the purchaser of National Forest timber to reforest the land which has been harvested. This would be done in lieu of the present practice of requiring the purchaser to make a deposit at the time of purchase to cover the costs of reforestation which is then handled by the Forest Service. We have no objection to this provision.

This amendment would permit greater flexibility in handling the reforestation and improvement work that follows timber harvests on the National Forests. It may be advantageous to both the Government and

the purchaser in some cases to have the work done when the purchaser's crews are in the area and can do the work immediately following the termination of the cutting. We see this authority to be of particular value in those situations where a portion of the reforestation work, such as site preparation, could be done more efficiently and timely by the purchaser. The Forest Service would then complete the job after the purchaser had left the sale area. The provision would tie in closely to our efforts in improving utilization of harvested material on the National Forests.

Careful supervision would be needed to guide the purchaser's efforts. The bill requires the Secretary to establish the standards by which the purchaser's reforestation or forest improvement work would be evaluated as to adequacy. All necessary reforestation work would have to be completed and certified as acceptable within 5 years from the completion of the timber sale.

We anticipate that an initial increase in cost would result from the enactment of Title I. This would be due to increased workload in preparing sales and in administering the requirements for reforestation. We would expect, however, that these increased costs would be offset by a reduction in costs due to reduced workload by Government employees or contractors carrying out the Knutson-Vandenburg work following the sale.

We should point out that the enactment of Title I may have an effect on the payments to the States and counties from the National

Forest Fund. Deposits made under the Knutsen-Vandenburg Act are included when calculating the amounts to be paid the States and counties, even though the deposits are held for the purpose of reforestation or forest improvement. The costs of required purchaser reforestation work would reduce receipts from the sale of the timber. This, coupled with reduced Knutsen-Vandenburg deposits, could result in a reduction in the payments to the States and counties.

Title II of the bill contains three provisions designed to encourage domestic softwood log processing. This would be done by amending the Internal Revenue Code, using special tax provisions as an incentive to encourage wood processors or forest landowners. We defer to the Department of the Treasury's views on the tax policy considerations and impacts on the Treasury of these three provisions. We also recognize the responsibility of the Department of State and other agencies in matters relating to export and foreign trade as contained in section 201. The State Department has advised us that as a result of the just completed Multilateral Trade Negotiations, the United States obtained important benefits for the lumber and wood products industry. A number of these benefits will result from the agreement on nontariff measure codes especially those on standards and subsidies. These codes generally will make trade more fair and less discriminatory. To impose artificial disincentives on exports such as contained in Section 201 would be contrary to the spirit

of the agreements and could bring into question the concessions obtained by the United States.

In addition, the United States and Japan are moving toward the establishment of a Forest Products Commission that will study ways of expanding U. S. exports of processed wood products. It is believed that this Commission, as well as the concessions obtained in the Multilateral Trade Negotiations, will sufficiently help the United States wood products industry and will make any form of export disincentive on softwood logs, cants, and squares unnecessary.

We would, however, like to speak to the forestry implications in Title II, primarily sections 202 and 203.

Section 202 would establish a Forest Service Nurseries Fund with amounts equivalent to the additional taxes received in the Treasury as a result of section 201. The additional nurseries or expanded production thus provided would be used to grow seedlings for an expanded reforestation program on public and private lands. We do not believe this special fund is needed--existing authority is adequate to permit adequate appropriations. The provision does address a problem hampering reforestation on National Forest System lands. Nationally, existing nurseries have the capacity to produce nearly 280 million seedlings annually, an amount adequate for forecasted needs. The problem is that shortages may occur in specific regions of the Nation. For example, there is excess capacity in midwestern nurseries, but there is an anticipated shortage of capacity in the Pacific Northwest

at nurseries producing planting stock for low elevation sites. The Forest Service has a study of nursery capacity under way that will provide information on where expansion should occur and what capital investments are needed. We expect that results from this study will be available by fall. In taking action to increase capacity, we want to avoid developing excess long-term capacity.

The State forest tree nurseries have an important role in supplying seedlings for accelerated reforestation efforts. A cooperative Federal-State effort under Section 3 of the Cooperative Forestry Assistance Act of 1978, supports the States' efforts in this regard although the program is now almost entirely supported by the States. Most State nurseries are adequate to meet current demands but are marginal in terms of meeting greatly expanded needs for stock. The above-cited authority is adequate to assist in meeting any deficiencies.

Section 203 would provide a tax credit to landowners who make investments in their forest land. The tax credit would serve as an incentive to increase the level of investments on such land and thereby increase the productivity of privately owned forest lands. We share with the subcommittee a concern regarding the lack of forest management on many of the private forest lands of the Nation. The Department of Agriculture has an array of programs designed to strengthen private forest land management. The subcommittee played a key role last year in helping to update and improve the authority for these programs.

These programs are carried out in cooperation with the State forestry agencies and State land-grant universities. These programs are an important part of the Federal Government's forestry effort. We believe private forest lands must assume an increased role in meeting future timber and other forest product supply needs.

Several factors may contribute to the landowners' lack of interest in forestry. The length of time from planting to harvest, the risks of loss from fire, insects or disease, and the high costs of reforestation, particularly of the softwood species, all may dampen interest. Taxes, too, may act as a disincentive to forestry investments. One aspect of this is the IRS requirement that all costs associated with the planting of trees must be capitalized and carried forward through the life of the trees and recovered when they are harvested. A tax credit as proposed by section 203 would allow landowners to immediately recover a portion of the costs of reforestation or forest improvement. The Department of Agriculture recognizes taxes as a potential incentive in a report prepared in response to the President's 1977 Environmental Message entitled "The Federal Role in the Conservation and Management of Private Nonindustrial Forest Land," submitted herewith for your files. We examined several alternative forms of tax incentives. The report concluded that, while modifications of tax could be expected to have a positive effect on landowners' interest, further analysis was needed before specific recommendations could be made.

Such analysis is necessary because we cannot predict with certainty the effect that a tax incentive would have on forestry investments. We need to have solid estimates on how many acres would be reforested and what type of tax incentive would provide the greatest response by land-owners. Consideration needs to be given to what requirements would be placed on the owner in return for the tax credit. In a similar vein, the Department of the Treasury would need to describe the tax credit's relationship to overall tax policy and its likely impact on the Treasury.

The Department testified on a similar proposal before the Senate earlier in the year. In our statement we stated that we were undertaking a study jointly with the Department of the Treasury to gain the knowledge necessary to make definite recommendations. The results of that study should be applicable to consideration of the provisions of section 203. We expect to complete this study by this fall.

We appreciate the opportunity to offer our views on H.R. 4498. This concludes my prepared remarks. I would be happy to answer your questions.

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